

AR42



Donlee / Annual Report 1974



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Donlee Manufacturing Industries Limited

Highlights

Earnings (before extra-ordinary item) were a record \$671,000 (\$1.91 per common share), on sales of \$20,007,000.

Working capital increased by \$660,000 to \$1,073,000.

Purchased goodwill amounting to \$363,000 was written off to retained earnings.

Capital investment in fixed assets totalled \$718,000.

The cover illustrates a completed end fitting manufactured by Donlee Nuclear, for installation at Ontario Hydro's Bruce Generating Station.

Report to Shareholders—1974

The past year was one which illustrated the profit potential of the Company. Net earnings (before extraordinary profits) of \$671,000 amounted to \$1.91 per share—vastly improved over 1973's figure of \$0.07 per share.

An extraordinary item amounting to \$156,000—\$0.44 per share—was earned, being a reduction of income tax due to the application of prior year's losses. Thus the transfer to retained earnings for the year is \$827,000 or \$2.35 per share.

This dramatic change in earnings is the result of continued growth in our profitable operations and the elimination of activities not generating profits. The disposal, early in 1974, of our gasket division, and of the manufacture and marketing of a pressure pump, were commented on in last year's report.

The success of the CANDU nuclear powered electrical generating system, in both export and domestic markets, has been most encouraging. DONLEE NUCLEAR has been successful in winning several contracts for End Fitting Assemblies. It would appear that our faith over the years in the eventual success of this field is being vindicated, and that this division will become a strong element of the Company. As a symbol of our hopes for this division, an end fitting was chosen to provide the cover picture in our new style annual report.

Despite a year of material shortages and price increases, DONLEE PLASTICS made significant gains in sales and profits. By maintaining a careful watch over the balance between automotive and commercial work, it has been successful in avoiding the worst of problems related to the automotive slump. There is an increasing demand for plastic technology and the outlook for continued growth is encouraging.

MOBILE MATERIALS HANDLING EQUIPMENT consolidated its operations in one new plant during the year. In spite of the problems related to moving, it had a successful year, and has laid the foundations for further growth.

GENERAL GEAR performed extremely well, attaining record sales and earnings. Anticipated equipment acquisitions in the new year should permit it to continue this successful pattern.

The success of new products and development of new markets was evident in the growth of sales and profits at NUDAY. Substantial write-offs of inventories and patents were recorded at RADEX CORPORATION.

The sudden dip in the automotive industry in the last quarter of the year was added to a year of problems in our PARAMOUNT INDUSTRIES and AUTOMOTIVE INDUSTRIES divisions. Escalating material costs, an adverse U.S. exchange rate and the drop-off in sales volumes led your management to institute a program of aggressively seeking margins more in keeping with the risks involved. The program will lead to a significant reduction in sales to the automobile industry, but will provide a return more in keeping with the assets employed.

In looking ahead into 1975, the first quarter profit will be lower than 1974, due to the costs of reducing our involvement in the automotive industry. By the second quarter these costs will have been absorbed and our involvement will have been scaled down to the point where its effects on the overall results will be minimal.

The outlook for the other areas of the Company is obviously obscured by the prevailing economic storm clouds. Nevertheless, these divisions are looking at 1975 with optimism tempered with caution. Unless some unforeseen general economic catastrophe occurs, it is anticipated that the successes of 1974 can be repeated or hopefully improved upon, in the year ahead.

In recent years changes in the laws applicable to your Company have made it desirable to update certain of its by-laws, and to amend its articles to permit the purchase of its shares. To this end the Directors have passed the necessary resolutions, and at the forthcoming annual and general meeting, shareholders will be asked to approve these resolutions.

In conclusion, we wish to extend our appreciation to all employees, shareholders, customers and suppliers, for their assistance in making this our most outstanding year.

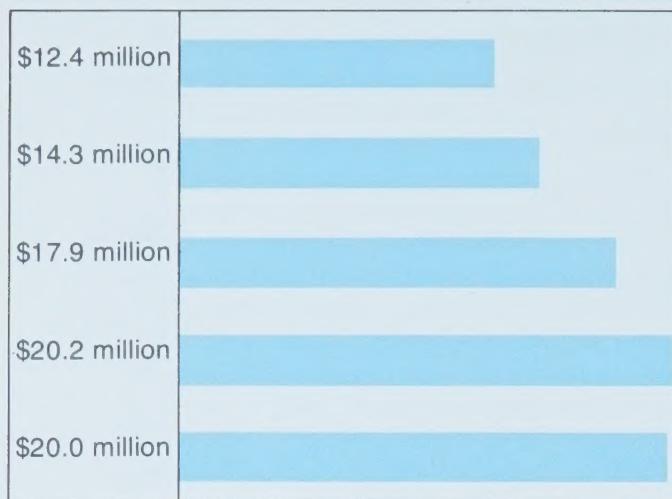
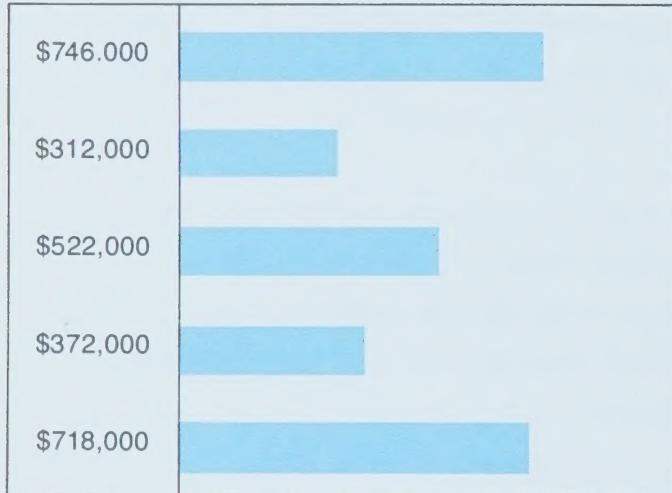
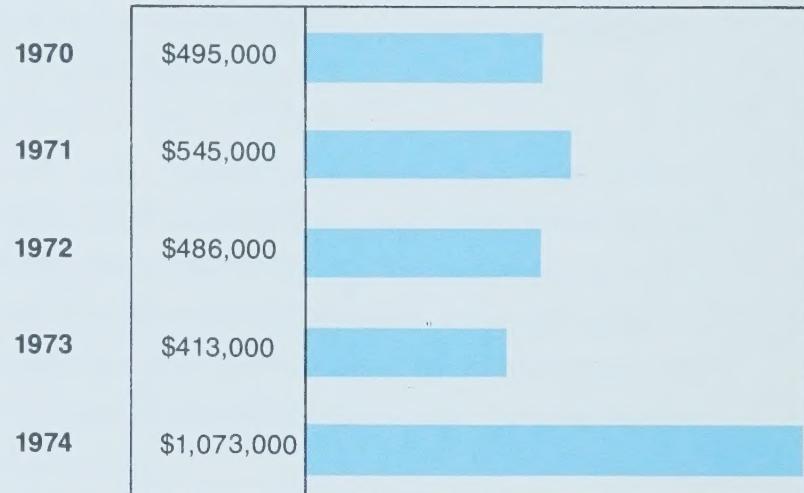
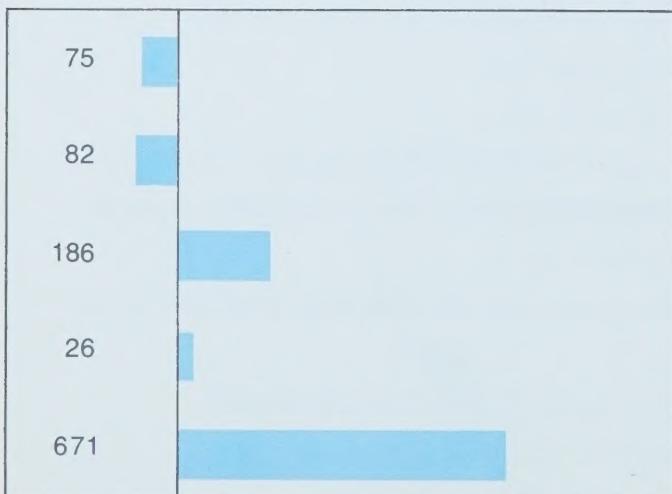
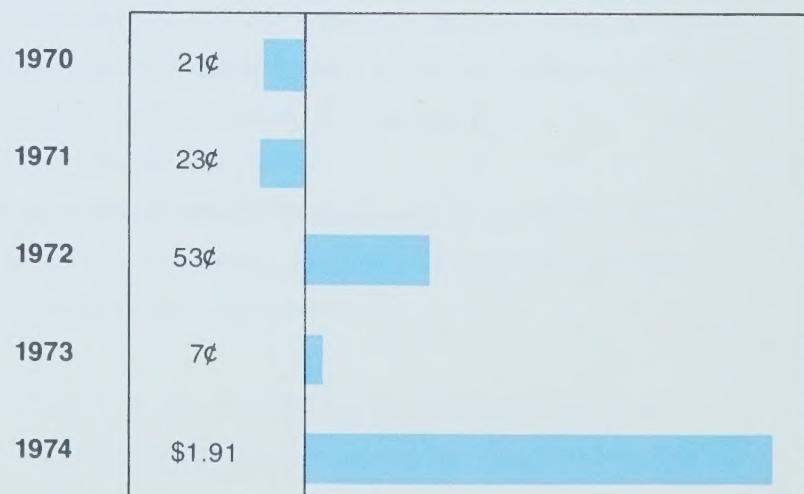
On Behalf of the Board of Directors



A. S. Donovan

April 3, 1975

President

Sales**Equity per Share****Capital Expenditures****Working Capital****Loss (000's)****Earnings (000's)****Loss per Share Earnings per Share**

Statement of Consolidated Earnings

YEAR ENDED DECEMBER 31, 1974

(with comparative figures for 1973)

	1974	1973
Sales	\$20,007,000	\$20,210,000
Expenses		
Cost of sales and expenses other than the undernoted		
Depreciation and amortization		
Fixed assets	490,000	435,000
Other assets	13,000	15,000
Interest		
Long term debt	120,000	133,000
Other	252,000	170,000
Selling and administrative expenses	2,474,000	2,310,000
	18,821,000	19,947,000
Earnings before income taxes, minority interest and extraordinary item	1,186,000	263,000
Income taxes		
Current	421,000	108,000
Deferred	107,000	128,000
	528,000	236,000
Earnings before minority interest and extraordinary item	658,000	27,000
Interest of minority shareholders in earnings (loss) of subsidiary	(13,000)	1,000
Earnings before extraordinary item	671,000	26,000
Extraordinary item		
Income tax reduction realized on the carry-forward of prior years' losses (note 5)	156,000	
Net earnings for the year	\$ 827,000	\$ 26,000
Earnings per share		
Earnings before extraordinary item	\$1.91	\$.07
Net earnings for the year	\$2.35	\$.07

Statement of Consolidated Retained Earnings

YEAR ENDED DECEMBER 31, 1974

(with comparative figures for 1973)

	1974	1973
Balance at beginning of year	\$ 1,471,000	\$ 1,445,000
Net earnings for the year	827,000	26,000
	2,298,000	1,471,000
Write-off of excess of cost over book value at dates of acquiring shares of subsidiaries	363,000	
Balance at end of year	\$ 1,935,000	\$ 1,471,000

DONLEE MANUFACTURING INDUSTRIES LIMITED
 (Incorporated under the laws of Ontario)
 and subsidiaries

Consolidated Balance Sheet—December 31, 1974
 (with comparative figures at December 31, 1973)

Assets

Current Assets

	1974	1973
Cash	\$ 79,000	\$ 59,000
Accounts receivable	2,501,000	2,696,000
Income taxes recoverable		8,000
Inventories at the lower of cost and net realizable value	3,027,000	2,985,000
Prepaid expenses	54,000	52,000
	5,661,000	5,800,000

Fixed Assets

Land, buildings and equipment, at cost	5,644,000	5,143,000
Less accumulated depreciation	2,575,000	2,221,000
	3,069,000	2,922,000

Other Assets

Excess of cost over book value at dates of acquiring shares of subsidiaries	363,000	
Other	18,000	123,000
	18,000	486,000
	\$8,748,000	\$9,208,000

Approved by the Board

A. S. DONOVAN, *Director*

P. L. MURRAY, *Director*

Liabilities

Current Liabilities

	1974	1973
Bank advances (note 2)	\$1,647,000	\$1,918,000
Accounts payable and accrued liabilities	2,357,000	2,995,000
Income taxes payable	188,000	79,000
Deferred income taxes	38,000	98,000
Principal due within one year on long term debt	358,000	297,000
	<hr/> 4,588,000	<hr/> 5,387,000
Long Term Debt (note 3)	822,000	1,102,000
Deferred Income Taxes	333,000	165,000
Interest of Minority Shareholders in Subsidiary	<hr/> 13,000	<hr/>

Shareholders' Equity

Capital Stock

Authorized — 600,000 common shares without par value		
Issued — 351,400 common shares	1,070,000	1,070,000
Retained Earnings	1,935,000	1,471,000
	<hr/> 3,005,000	<hr/> 2,541,000
Long term leases (note 4)	<hr/> \$8,748,000	<hr/> \$9,208,000

AUDITORS' REPORT

To the Shareholders of
DONLEE MANUFACTURING INDUSTRIES LIMITED

We have examined the consolidated balance sheet of Donlee Manufacturing Industries Limited and subsidiaries as at December 31, 1974 and the statements of consolidated earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles which, except for the charge to retained earnings as set out in note 1(a), have been applied on a basis consistent with that of the preceding year.

THORNE GUNN & CO.
Chartered Accountants

Toronto, Canada
March 17, 1975

Statement of Consolidated Changes in Financial Position

YEAR ENDED DECEMBER 31, 1974

(with comparative figures for 1973)

	1974	1973
Working capital derived from		
Operations		
Earnings before extraordinary item	\$ 671,000	\$ 26,000
Items not involving working capital		
Depreciation and amortization		
Fixed assets	490,000	435,000
Other assets	13,000	15,000
Other assets written off	110,000	
Deferred income taxes	168,000	88,000
Interest of minority shareholders in earnings (loss) of subsidiary	(13,000)	1,000
Disposal of fixed assets	1,439,000	565,000
Income tax reduction realized on the carry forward of prior years' losses	81,000	31,000
	156,000	
	1,676,000	596,000
Working capital applied to		
Additions to fixed assets	718,000	372,000
Reduction of non-current portion of long term debt	280,000	290,000
Other	18,000	7,000
	1,016,000	669,000
Increase (decrease) in working capital	660,000	(73,000)
Working capital at beginning of year	413,000	486,000
Working capital at end of year	\$1,073,000	\$ 413,000
Changes in components of working capital		
Increase (decrease) in current assets		
Cash	\$ 20,000	\$ 59,000
Accounts receivable	(195,000)	160,000
Income taxes recoverable	(8,000)	(88,000)
Inventories	42,000	393,000
Prepaid expenses	2,000	26,000
	(139,000)	550,000
Increase (decrease) in current liabilities		
Bank advances	(271,000)	199,000
Accounts payable and accrued liabilities	(638,000)	256,000
Income taxes payable	109,000	35,000
Deferred income taxes	(60,000)	40,000
Principal due within one year on long term debt	61,000	93,000
	(799,000)	623,000
Increase (decrease) in working capital	\$ 660,000	\$ (73,000)

Notes to Consolidated Financial Statements

December 31, 1974

1. Summary of Accounting Policies

(a) Basis of consolidation

These consolidated financial statements include the accounts of the company and its subsidiaries all of which are wholly-owned except for Radex Corp. which is 80% owned.

In 1974 the excess of cost over book value at dates of acquiring shares in subsidiaries of \$363,000 previously reflected in the balance sheet, was written off by a charge to retained earnings.

(b) Currency conversion

The financial statements of the company's U.S. subsidiary, Donlee Manufacturing Industries, Inc. and its subsidiaries have been converted from United States to Canadian dollars as follows:

- (i) current assets and current liabilities, at the exchange rate prevailing at December 31, 1974;
- (ii) fixed assets, at the rates prevailing at the latter of the date of acquisition of a subsidiary or the purchase date of the assets;
- (iii) long term debt, at the rates prevailing at the date on which the debt was incurred, and
- (iv) revenue and expenses, at the average rate of exchange during the year.

(c) Fixed assets and depreciation

Fixed assets are depreciated on the straight line basis over their estimated useful lives substantially as follows:

- (i) buildings over thirty years
- (ii) plant and equipment over periods varying from five to ten years
- (iii) leasehold improvements over the term of the applicable lease.

Disposals and assets scrapped are recorded by removal from the accounts of the related asset cost and accumulated depreciation at the date of disposal. Any profits or losses on disposal are reflected in earnings in the period of disposition.

2. Bank Advances

Bank advances are secured by a general assignment of book debts and inventories and by a \$1,850,000 demand debenture, bearing interest at the rate of 12% per annum. The debenture carries a second fixed and specific mortgage and charge on

- (a) the land, buildings, machinery and equipment owned by the company,
- (b) the company's right, title and interest in and to the land and premises held under lease, and a second floating charge on all its property, assets and rights, both present and future.

Notes to Consolidated Financial Statements (Continued)

December 31, 1974

3. Long Term Debt

	1974	1973
Serial debentures, Adjustment Assistance Board		
95/16%	\$ 26,000	\$ 156,000
71/4%	819,000	897,000
The debentures mature on May 15, 1980 and are payable in monthly instalments of \$13,000 plus interest. The payment of the principal is secured by:		
(i) First fixed charge on land owned December 31, 1968 and buildings thereon;		
(ii) Fixed charge on machinery and equipment now owned or to be acquired.		
4% Mortgage payable	63,000	
Mortgage maturing December 31, 1987 is payable U.S. \$500 monthly, blended principal and interest. Payment is secured by land and building of The Nuday Co.		
91/2% Promissory note		100,000
10% Mortgage payable	157,000	178,000
Mortgage maturing December 31, 1975 is payable U.S. \$2,908 monthly, blended principal and interest. Payment is secured by all fixed assets of Automotive Industries, Inc., except those pledged against chattel mortgages.		
Finance contracts	115,000	68,000
Several finance contracts secured by equipment owned by Mobile Materials Handling Equipment Limited and leased to customers.		
	1,180,000	1,399,000
Less principal due within one year included in current liabilities	358,000	297,000
	<u>\$ 822,000</u>	<u>\$1,102,000</u>

Principal due within each of the next five years is as follows:

1975	\$358,000
1976	194,000
1977	182,000
1978	177,000
1979	162,000

4. Long Term Leases

The company rents several buildings under long term leases. The aggregate of rentals incurred as an expense on these leases during 1974 was \$191,000. The aggregate minimum rental expense to be incurred under these leases during the five years ending December 31, 1979 will be \$855,000. The leases expire at varying dates to December 1, 1984.

5. Income Taxes

The company's United States subsidiaries intend to file a consolidated income tax return in which consolidated income for tax purposes of those subsidiaries for the year will be eliminated by application of consolidated losses of prior years totalling \$300,000. The tax effect of the application of these losses is reflected in the statement of consolidated earnings as an extraordinary item. As at December 31, 1974, no further losses remain available.

6. Other Statutory Information

Direct remuneration of directors and senior officers (as defined by The Business Corporations Act) amounted to \$308,000 (1973, \$254,000).

Five Year Financial Summary

	(Dollars in Thousands Except Per Share Data)				
	1974	1973	1972	1971	1970
EARNINGS					
Gross operating revenue	\$ 20,007	20,209	17,965	14,314	12,431
Earnings (loss) before income taxes, minority interest and extra-ordinary items	1,186	263	328	(289)	(203)
Provision for income taxes	528	236	141	(211)	(120)
	658	27	187	(78)	(83)
Interest of minority shareholders in earnings of subsidiary	(13)	1	1	4	(8)
Net earnings (loss) before extra-ordinary items	671	26	186	(82)	(75)
Extra-ordinary items	156	—	—	—	—
Net earnings for the year	\$ 827	26	186	(82)	(75)
FINANCIAL POSITION					
Working capital	\$ 1,073	413	486	545	495
Fixed assets, net	3,069	2,922	3,016	2,926	3,257
Other assets	18	486	494	512	608
	4,160	3,821	3,996	3,983	4,360
Long-term debt	822	1,102	1,393	1,643	1,645
Deferred income tax	333	165	76	—	297
Interest of minority shareholders in subsidiary	—	13	12	11	7
	1,155	1,280	1,481	1,654	1,949
Shareholders' equity	\$ 3,005	2,541	2,515	2,329	2,411
SOURCE AND APPLICATION OF FUNDS					
Net earnings (loss) for the year	\$ 827	26	186	(82)	(75)
Depreciation and amortization	490	435	403	370	348
Amortization of other assets	13	15	—	—	—
Deferred income taxes	168	88	76	(297)	110
Interest of minority shareholders in earnings (loss) of subsidiary	(13)	1	1	4	(8)
Write-off of development expenditures of prior year	—	—	—	130	—
Disposals of fixed assets	81	31	33	276	52
Other assets, written off	110	—	16	—	—
Issue of long-term debt	—	—	—	82	759
Working capital of subsidiaries not previously consolidated	—	—	—	—	147
	1,676	596	715	483	1,333
Additions to fixed assets	718	372	522	312	746
Patents	—	—	—	—	35
Reduction in non-current portion of long-term debt	280	290	250	85	381
Other	18	7	2	36	146
	1,016	669	774	433	1,308
Increase (decrease) in working capital	\$ 660	(73)	(59)	50	25
PER COMMON SHARE					
Earnings (loss) before extra-ordinary items	\$ 1.91	.07	.53	(.23)	(.21)
Earnings (loss) including extra-ordinary items	\$ 2.35	.07	.53	(.23)	(.21)
Common shares outstanding	351,400	351,400	351,400	351,400	351,400
Shareholders' equity	\$ 8.55	7.23	7.15	6.62	6.86

Board of Directors

R. H. Burns Bramalea, Ontario
General Manager, General Gear Company, Weston
R. P. K. Cousland Toronto, Ontario
Partner, Salter & Apple, Toronto
A. S. Donovan Toronto, Ontario
President, Donlee Manufacturing Industries Ltd., Weston
J. C. Donovan Willowdale, Ontario
Vice-President, Donlee Manufacturing Industries Ltd., Weston
J. Fogarty Windsor, Ontario
Vice-President, Donlee Manufacturing Industries Ltd., Weston
Vice-President, and General Manager, The Nuday Co., Detroit
P. L. Murray Mississauga, Ontario
Secretary-Treasurer, Donlee Manufacturing Industries Ltd.,
Weston
G. C. Stewart Toronto, Ontario
President, Merrill Lynch Royal Securities Ltd., Toronto

Officers

A. S. Donovan President
J. C. Donovan Vice-President
J. Fogarty Vice-President
P. L. Murray Secretary-Treasurer

Bankers

Mercantile Bank of Canada Toronto
Community Bank Bad Axe, Michigan
Manufacturers National Bank
of Detroit Detroit, Michigan
Marine Midland Bank—Western Buffalo, New York

Legal Counsel

Salter & Apple Toronto
Cross, Wrock, Miller & Vieson Detroit

Auditors

Thorne Riddell & Co. Toronto
Derderian, Kann, Seyferth &
Salucci, P.C. Troy, Michigan
Karl Leppien & Company, P. C. Pigeon, Michigan

Transfer Agent

The Royal Trust Company Toronto, Montreal

DONLEE MANUFACTURING INDUSTRIES LIMITED AND SUBSIDIARIES

Head Office

430 Signet Drive, Weston, Ontario M9L 2T6

Divisions

— Donlee Nuclear Weston
— Donlee Plastics Weston
— General Gear Company Weston
— Paramount Industries Weston

Subsidiaries

— Donlee Manufacturing Industries Inc. Detroit
and its subsidiaries
 Automotive Industries Inc. Owendale, Mich.
 Donlee Plastic Products, Inc. Detroit
 Mobile Materials Handling &
 Equipment, Inc. Buffalo
 Radex Corporation Detroit
 The Nuday Co. Detroit
— Mobile Materials Handling &
 Equipment Ltd. Mississauga
— The Nuday Equipment Company of Canada
 (1968) Limited Weston



DONLEE MANUFACTURING INDUSTRIES LIMITED